Borrowing for Capital Projects – Connecting the Academic Plan to the Business Plans of the University Of Toronto

A review of the borrowing strategy, approved by the Business Board and Governing Council in June 2004, is currently being conducted. This review will come to Business Board in January 2007. No major changes are anticipated, as the strategy has been well received by the rating agencies and the investment community. It will, however, provide an update on the University's use of debt, and where the University is expected to be over the next planning cycle and beyond.

This report provides a summary of the University's current borrowing strategy, the various drivers, and definition of terms used.

The borrowing strategy

The strategy was approved in June of 2004. Key points of the strategy were that the University could use debt to finance capital projects; that an acceptable level of external debt was between 33% and 40% of net assets smoothed over five years, and that if debt ever exceeded 40% because net assets had declined, no further borrowing would be permitted until we had dropped back to the 33% level. Internal borrowing of $200 mm from cash flow was also approved.

Maximum borrowing capacity

Maximum borrowing capacity is defined as the level constrained by the strategy, as outlined above, and includes both internal and external.

Capacity at June 2004, based on 40% of smoothed net assets, was $587 mm. With internal debt of $200 mm, total borrowing capacity was $787mm. (See Appendix A)

Approved borrowing

Even though the Board has agreed to a maximum borrowing capacity, issuance of a debenture requires a specific borrowing resolution to be approved by the Board.

At June 2004, the Business Board approved the issue of another $150 mm of external debt, bringing the total external approved borrowing amount to $561 mm. This consisted of the following:

$ 51 mm	outstanding loans prior to 2001
$160 mm	Series A debenture
$200 mm	Series B debenture
$150 mm	authorized increase
$561 mm	total approved external borrowing
$200 mm	total internal borrowing as per strategy
$761 mm	total approved borrowing

Outstanding external borrowing

Even though the Business Board approves the external borrowing, the actual borrowing is at the discretion of the administration and will be timed to achieve a balance between rates, forecast movement of rates, and specific need driven by the completion status of projects. Outstanding external borrowing is what is shown on the balance sheet of the University as a liability.

Since June 2004, the CFO has issued only $75 mm of the authorized $150 mm amount. The remainder will likely be issued sometime this year. The current issued external amounts as of April 30, 2006 are:

$ 49 mm	outstanding loans prior to 2001
$160 mm	Series A debenture
$200 mm	Series B debenture
$ 75 mm	Series C debenture
$484 mm	total outstanding external borrowing

Allocated borrowing

When capital projects are approved, there is a requirement that all funding sources be identified, and if debt is required, the source of repayment must also be identified. This is referred to as allocated borrowing and is reported on the capital projects summary sheet, as is the unallocated balance.

To date, $744 mm has been allocated to a wide range of capital projects and other university uses. Only $43 mm of the maximum borrowing capacity remains unallocated.

Current situation

As of June 30, 2006, the smoothed Net Asset position of the University, which constrains the maximum borrowing capacity, has improved from $1460 mm to $1552 mm. This means that the maximum borrowing capacity is now $621 mm external plus $200 mm internal for a total amount of $821 mm. The unallocated amount of the 2006 maximum borrowing capacity is $77 mm.

A number of projects, including the graduate expansion and the medical academy, coming forward in the next cycles will require debt. As all funding sources must be identified as part of project approval, it will be important to recognize that we have the capacity and to approve additional borrowing.

Borrowing strategy context

The need for debt is driven by a variety of factors (see Appendix B). The Academic Plan of the University of Toronto is the starting point. It identifies when and how Faculties will grow their academic operations and drives the need for space and other facilities.

The Capital Plan translates the need for space and facilities into specific projects to add new space, renovate existing space or to re-purpose space to a different use. This feeds the Real Estate Plan, if additional space is required beyond the constraints of the current campus envelopes, or if existing space is no longer needed or useful. Short term requirements may be met by leasing. Both the Capital Plan and the Real Estate Plan are being updated now and are expected to be presented to the Cycle Three meeting of the Business Board.

Every project requires a funding and, if necessary a financing plan. The specifics of each will vary, but all will normally require some capital (equity) contribution which may come from government programs, donors or the carry forward funds of the specific Faculty. Sometimes funds are provided from central administration sources through programs like the Academic Initiatives Fund.

If, as is usually the case, there is insufficient capital to complete the project, then borrowing is required. The Provost recommends the priority for the allocation of debt based on the Capital Plan, taking into consideration a variety of factors including the actual priority of the project itself, the fit with the academic mission of the University of Toronto and the ability of the Faculty to manage the repayment. Borrowing, where necessary, is approved on a project by project basis as part of the funding plan for the project. Where borrowing is allocated to the project a loan is issued under the University's internal loan program. The division involved accepts responsibility for the repayment of the loan, either by undertaking additional fundraising or by allocating operating funds to repayment. The loan requires blended principal and interest payments over a specific term at a specified interest rate. These payments are used to fund the long term borrowing pool from which interest payments to lenders and other expenses are paid, and which accumulates funds to repay the debentures.

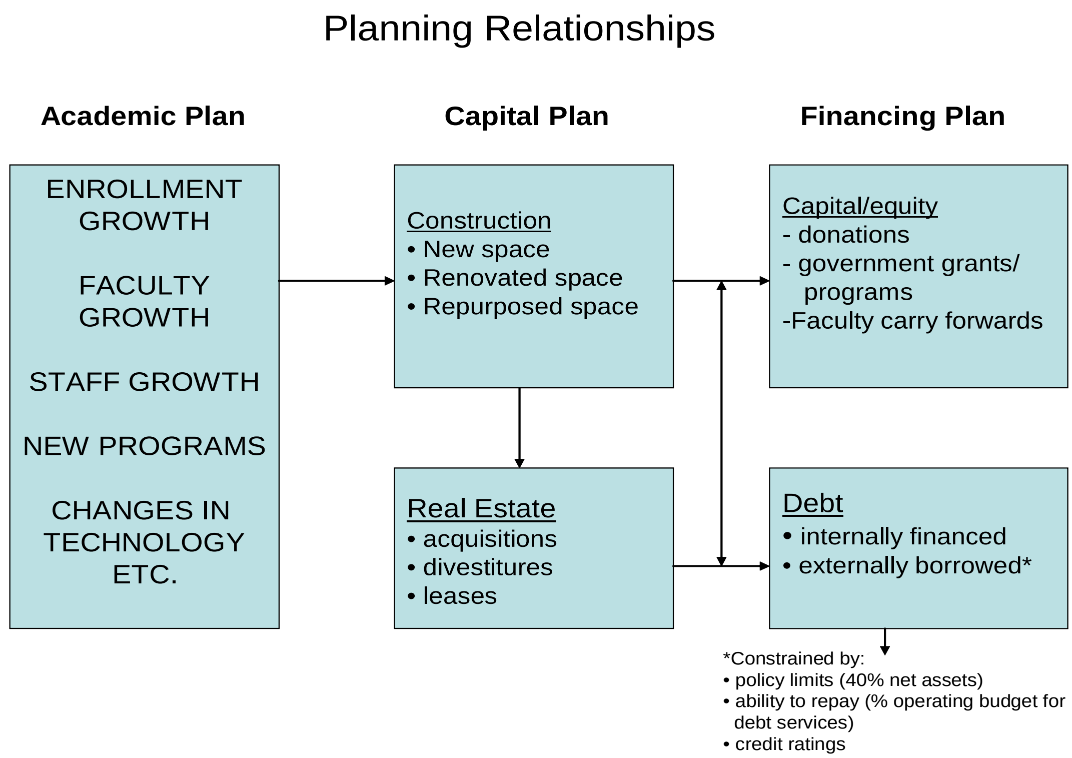
We plan to bring the updated borrowing strategy to the Business Board for Cycle Three. A variety of scenarios have been run to assess the impact of factors that affect the financial health of the University including interest rates, investment returns and donation levels. The updated strategy will contain forecasts of future financial positions, with associated debt levels. It will also provide comparisons with peer organizations, and confirm whether the strategy remains a prudent one that will permit the University of Toronto to achieve the goals it has set.

Appendix A
Summary of Borrowing

Position ($ millions)	2004	2006	Change
Net Assets	1,460	1,552	92
External Borrowing Limit at 40%	587	621	34
Internal Borrowing Limit	200	200	0
Maximum Borrowing Capacity	787	821	34
Approved External	561	561	0
Approved Internal	200	200	0
Total Approved	761	761	0
Approval Pending for Future Debenture Issuance	26	60	34
Maximum Borrowing Capacity	787	821	34
Allocated	744	744	0
Unallocated	43	77	34

		($ millions)
Issued:		
	Miscellaneous loans (at April 30, 2006)	$ 49
	Series A debenture	160
	Series B debenture	200
	Series C debenture	75
		$484
Approved for Issuance but Not Yet Issued:		75
		$559

Appendix B


Planning Relationships
Academic Plan
Capital Plan
Financing Plan
ENROLLMENT GROWTH
FACULTY GROWTH
STAFF GROWTH
NEW PROGRAMS
CHANGES IN TECHNOLOGY ETC.
Construction
• New space
• Renovated space
• Repurposed space
Real Estate
• acquisitions
• divestitures
• leases
Capital/equity
- donations
- government grants/ programs
-Faculty carry forwards
Debt
• internally financed
• externally borrowed*
*Constrained by:
• policy limits (40% net assets)
• ability to repay (% operating budget for debt services)
• credit ratings